

# FINANCIAL POSITION

## TVA Financial Highlights

TVA is a wholly-owned corporation of the United States Government whose primary objective is to generate prosperity for the people of the Tennessee Valley by supplying low-cost, reliable power, supporting a thriving river system and stimulating economic growth. To uphold this important mission, TVA continues to make the decisions necessary to assure sound operational and financial performance both now and in the future.

### Competition

TVA recognized over a decade ago that the electric utility industry would undergo significant changes, and has taken the necessary steps to prepare for an increasingly competitive environment. In 1988, TVA began an aggressive program to become more competitive by reducing costs and holding prices steady. TVA has had only one price increase during this 13-year period.

### 10-Year Business Plan

As part of its strategy to sustain its competitive position into the future, TVA adopted a strategic 10-year Business Plan in October 1997. The key objective of this Plan is to ensure that TVA can continue to successfully compete at the market price of power in the Southeastern United States in a restructured electric utility environment.

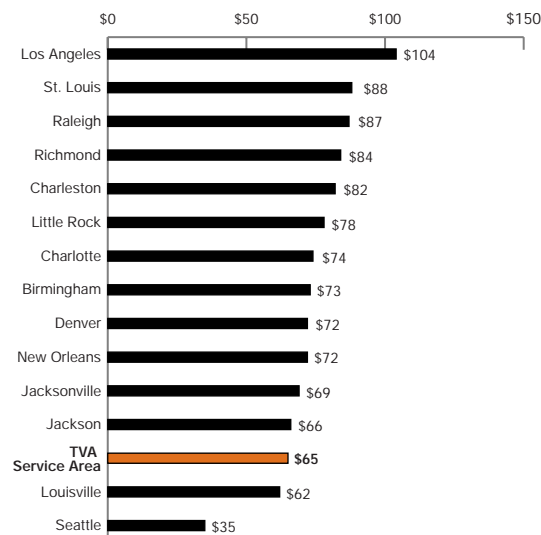
As a wholly-owned U.S. Government corporation that operates as a low-cost supplier, TVA does not accumulate a large amount of retained earnings. In addition, TVA is not authorized by the TVA Act to issue equity. Therefore, TVA's power program is fully self-supporting from operating cash flows and proceeds from the issuance of debt, subject to a \$30 billion congressionally mandated ceiling. These finite funding options require TVA to implement a financing strategy consistent with the primary objective of the Plan.

In 1997, TVA began pursuing several operating and financial strategies to meet the principal goal of the Plan. TVA committed to reducing the labor and material components of its cost, while increasing the utilization of its facilities. In addition, TVA pledged to use most of the cash generated by these operating strategies for debt reduction, which would allow TVA to reduce one of its largest expense components, interest expense.

### Accomplishments

TVA's operational and financial strategies are paying off. TVA has reduced operating expenses, while improving the reliability and utilization of its power plants. TVA has maintained adequate power supply and transmission capacity to ensure reliable electricity delivery, despite growing demand and weather extremes; developed five nuclear units into an award-winning nuclear program; and increased coal and hydropower capacity utilization without incurring substantial additional capital costs – all while maintaining some of the most competitive prices in the nation.

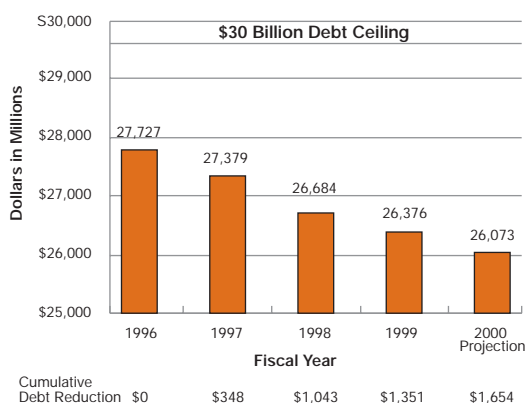
**Average Monthly Residential Power Bill:**  
1,000 kilowatt hours  
Major U.S. Cities  
July 1999



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In addition, TVA has reduced its outstanding debt by more than \$1.3 billion since 1996.



Since 1993 TVA has:

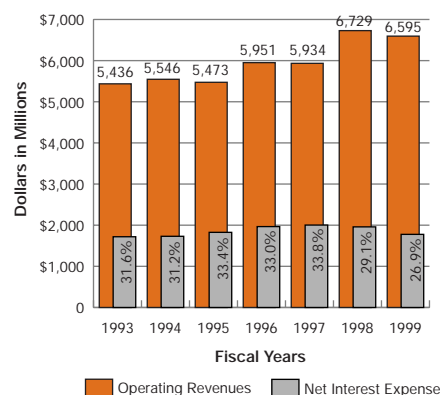
- Issued more than \$26 billion through 45 debt offerings
- Saved more than \$350 million in annual interest costs through refinancings
- Expanded the investor base from 5,000 domestic institutional investors to more than 370,000 investors located in all 50 states and in 35 countries

### Financing Program

TVA's financing program is crucial to the success of its 10-year Business Plan. At nearly \$1.8 billion dollars annually, interest expense is a large component of TVA's cost of power. To reduce interest expense, TVA recognized that it would need to reduce the amount of debt outstanding and also lower the average interest rate on its outstanding debt portfolio.

TVA reversed a 35-year trend of annual increases in total debt for the first time in 1997 when it began reducing its total debt outstanding and financing all of its capital requirements through cash flows. As a result, TVA has reduced total interest expense as a percent of sales from 34 percent to about 27 percent since TVA initiated the 10-year Business Plan in 1997.

TVA's Annual Interest Expense as a Percent of Sales



### Financing Goals and Objectives

TVA assumed in the 10-year Business Plan that long-term interest rates to refinance maturing debt would average seven percent over the plan period. To achieve this rate, TVA committed to offer unique investment opportunities that provide exceptional value for both the investor and TVA. TVA has outlined six financing objectives to accomplish this mutually beneficial goal:

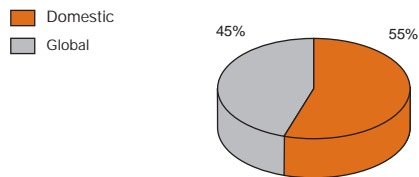
- Obtain cost-effective financing rates
- Be customer driven
- Broaden investor base
- Lengthen average maturity
- Maintain flexibility through optionality
- Build on the TVA yield curve

While TVA seeks to diversify its debt portfolio, it strives also to bring offerings to the market that provide opportunities for investors to diversify their own holdings. TVA has issued a variety of debt securities that meet a broad range of institutional and individual investors' needs around the world, producing a winning alliance between TVA and its investors. TVA has accomplished this by packaging bond offerings in various combinations of structures, redemption features, maturities, currencies, par values and interest payment frequencies.

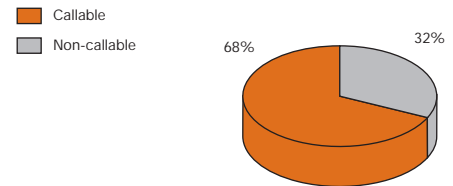
Combining these features to create a diverse portfolio of offerings has produced many different debt securities – something for almost every investor. As of March 1, 2000, TVA had 34 debt issues, for total long-term debt outstanding of about \$22.7 billion.

## Diversification of TVA's Debt Portfolio March 1, 2000

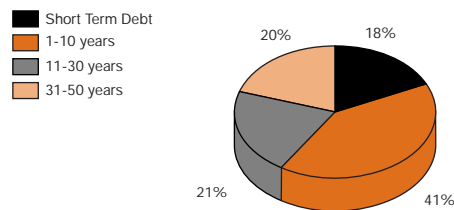
### Domestic vs. Global



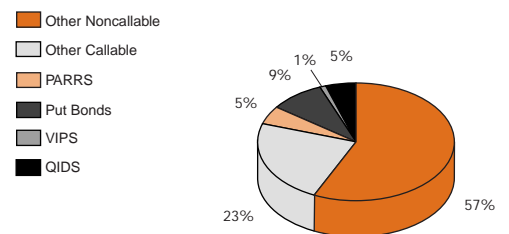
### Callable vs. Non-callable



### Debt Maturities



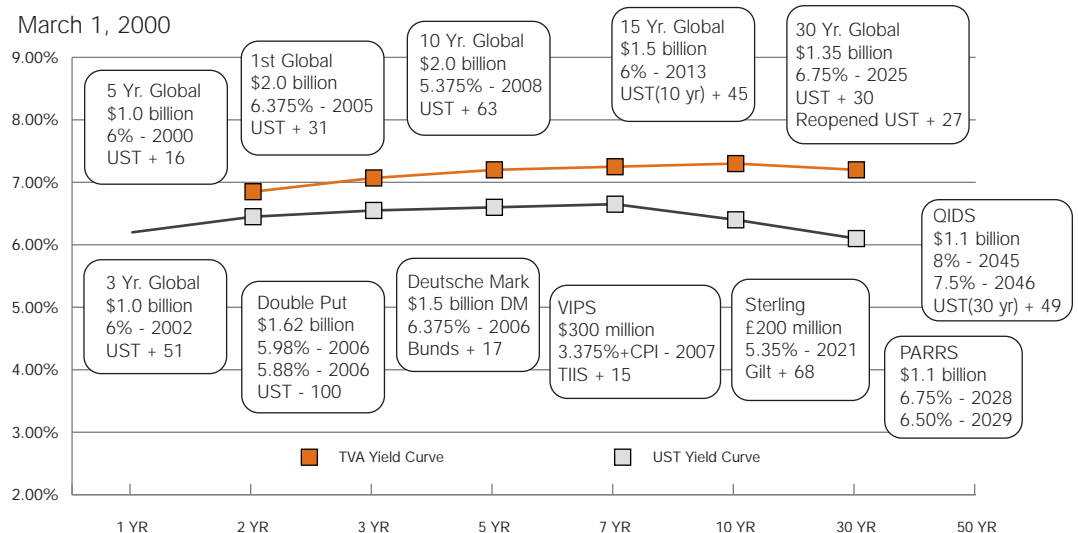
### Debt Structures



## TVA Yield Curve

High credit quality allows TVA to issue bonds at competitive spreads.

March 1, 2000



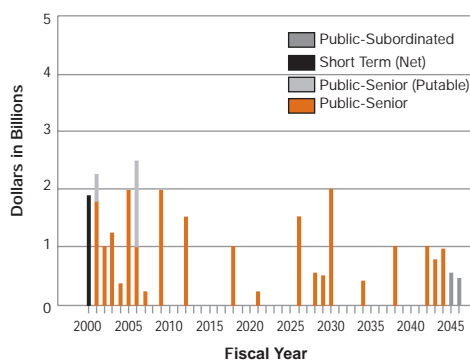
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### TVA Debt Maturities

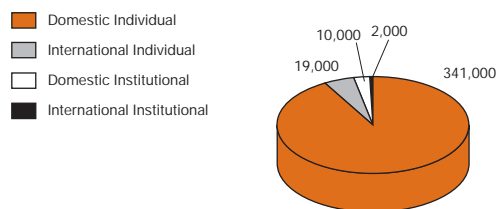
TVA offers debt securities that range from 2 to 50 years.

March 1, 2000

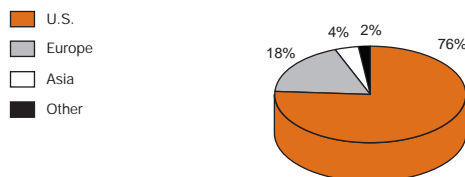


### Diversification of TVA's Investor Base

372,000 Investors



### Investor Holdings by Region

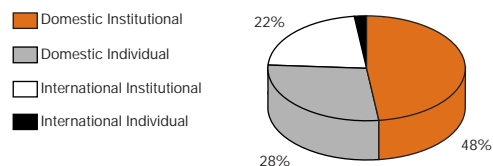


### TVA's Investor Base

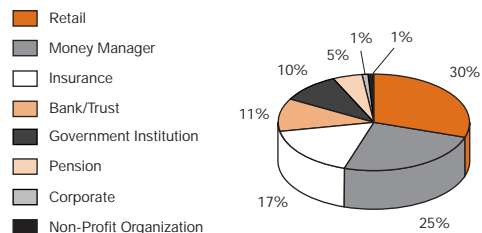
TVA has expanded its investor base from 5,000 domestic institutional investors in 1993 to more than 370,000 investors in 2000. TVA's investors are located in all 50 states and 35 countries. Investors around the world are attracted to TVA securities because:

- The TVA name is well-known and synonymous with high quality
- TVA offers investment opportunities that provide exceptional value for investors
- TVA bonds trade well in the secondary market
- Investors understand and have confidence in TVA's business

### Investor Holdings by Dollars



### Investor Holdings by Type



## Retail Bond Program

## Retail Offerings

- An offering of five securities of different maturities, coupons and interest payment dates
- The purchase of all five maturities, or some combination of maturities, provides monthly income to the investor
- Investor demand prompted TVA to increase the amount of the initial offering by 25 percent
- Each series includes an estate feature, which allows the bonds to be redeemed at par upon the death of a bondholder, subject to certain limitations

[illegible]

- First-of-its-kind retail security
- A unique feature provides the possibility for the interest rate to automatically reset downward after the first five years based on market conditions
- Provides flexibility for the investor – they can hold the bonds, return the bonds to TVA at par if and when the interest rate is reset, or trade the bonds on the New York Stock Exchange at any time

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- Investor demand for the first issue of PARRS prompted TVA to increase the size of the offering from \$250 million to \$575 million
- At the time of issue, the first series of PARRS had the lowest coupon on a \$25 par bond since 1993
- Expanded retail investor base, reaching new investors in all 50 states

### **1998 Series A Estate Bonds, \$250 Million 6.35% 20NC3 issued January 21, 1998**

- First TVA bonds to offer an estate feature, which allows the bonds to be redeemed at par upon the death of a bondholder, subject to certain limitations
- Launched at \$150 million and increased to \$250 million as a result of strong investor demand
- Bonds mature in 2018 unless the call option is exercised on or after January 15, 2001

### **1996 and 1995 QIDS (Quarterly Income Debt Securities), \$500 Million 7.50% 50NC5 issued April 26, 1996, and \$600 Million 8.00% 50NC5 issued April 10, 1995**

- Designed as a subordinated debt security to function like a preferred stock
- Issued 50-year bonds, callable after year 5, in denominations of \$25 with fixed quarterly interest payments
- Listed on the New York Stock Exchange
- Established a large retail investor base, with investors in all 50 states
- Distributed through a syndicate of more than 80 members

## Global Bond Program

TVA's global bond program is a key component of its overall financing program. TVA entered the global debt markets in 1995 to further expand its investor base and lower its financing costs. Consistent with its overall financing strategy, TVA attracts global investors by offering debt issues with a variety of maturities and currencies – including Deutsche Mark and Sterling – and solid trading performance in secondary markets.

Since 1995, TVA has issued 10 global bonds and reopened two for a total of \$10.2 billion. These global bonds represent 50 percent of TVA's long-term public debt offerings since 1995, and 45 percent of TVA's long-term debt outstanding as of March 1, 2000.

Brief summaries of TVA's global bonds are as follows:

- TVA entered the global market in June 1995 when it launched a \$1.0 billion 10-year offering that doubled to \$2.0 billion as a result of investor demand. This set a record, at the time, for the largest-ever global bond offering by a U.S. agency. About two-thirds of the issue was placed with non-U.S. investors who had never before owned TVA securities.
- TVA returned to the global market later that same year in November to expand its investor base by simultaneously offering \$1 billion of 5-year bonds and \$600 million of 30-year bonds. This was the first time a U.S. issuer simultaneously offered both intermediate and long-term global bonds. Offering two issues at once enabled TVA to meet different investment needs of its customers and, at the same time, offer high-quality investments with attractive liquidity. The bonds were listed on the Luxembourg, Hong Kong, Singapore and New York Stock Exchanges.
- In September 1996, TVA formed an alliance with the world's largest non-sovereign borrower, European Investment Bank (EIB), to issue

triple-A rated global bond issues at the same time. TVA offered 1.5 billion in Deutsche Marks and EIB offered 1.0 billion in U.S. dollars through simultaneous launching, marketing and pricing of the independent offerings. This created a 10-year benchmark Deutsche Mark issue that was a surrogate for German Bunds, and established TVA as a non-dollar issuer. In connection with this offering, TVA entered into a currency swap with EIB, hedging TVA's foreign currency exchange exposure.

- In August 1997, TVA reopened the 1995 30-year global bond for an additional \$750 million to establish a large, liquid benchmark issue, bringing the total to \$1.35 billion in 30-year global bonds.
- In March 1998, TVA offered \$1 billion of a 15-year structure to create a global benchmark for a 15-year maturity, attracting new investors through Asian and European distribution. European investors purchased about 60 percent of the bonds, the highest level of European distribution for a TVA global bond.
- In September 1998, TVA reopened the 1998 15-year global bond for an additional \$500 million to establish a large, liquid benchmark issue, bringing the total to \$1.5 billion in 15-year global bonds.
- In November 1998, TVA offered \$2 billion of 10-year global bonds targeted to international investors in Europe and Asia. Strong investor demand for high-quality, long-term, liquid securities allowed TVA to double the size of the original offering amount of \$1 billion.
- In December 1998, TVA offered £200 million (\$331 million) in 23-year sterling-denominated global bonds, attracting first-time TVA investors in Europe. These bonds attracted investors who were seeking a safe, high-quality investment and a strong alternative to United Kingdom government bonds, which

are similar in quality to U.S. Treasury bonds.

- In September 1999, TVA offered \$1 billion in 3-year global bonds, attracting investors seeking high quality, short-dated securities. About 65 percent of the bonds were sold to investors in the U.S., with 35 percent of the offering distributed largely to investors in Europe and Asia.

### International Recognition

TVA's global bond program has received recognition in the global financial community, as follows:

- Described by the *International Financing Review* in March 1998 as having "a reputation of being among the most innovative of the U.S. Agency borrowers"
- Named the "Best North American Borrower" by *Euromoney* in 1996 for innovative bond deals in U.S. and international markets
- Declared one of the international "Deals of the Year" by *Institutional Investor* in 1996 for its innovative Deutsche Mark bond issue
- Named "Debut Borrower of the Year" by *International Financing Review* in 1995
- Called "The Most Outstanding Agency Borrower" by *Euroweek* in 1995

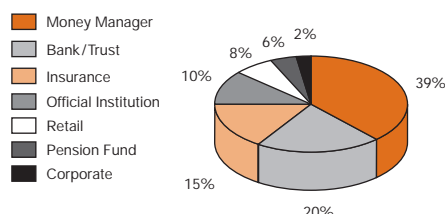
More than 25,000 investors have purchased TVA's global bonds, including institutional investors such as money managers, banks and trusts, insurance companies and pension fund managers, as well as individual investors.



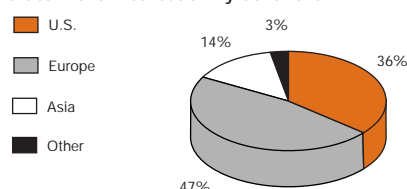
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Global Bond Distribution by Investor Type



Global Bond Distribution By Continent



### Fiscal Year 1999 Refinancing

TVA brought six new offerings totaling \$4.506 billion to market in fiscal year 1999 to refinance its entire \$3.2 billion of Federal Financing Bank (FFB) debt and to refinance more than \$1.25 billion of maturing and callable debt. At the beginning of the fiscal year, in October 1998, TVA offered \$250 million of 2.25-year bonds with a coupon of 5.00 percent targeted to investors in the western U.S. Also in October, the U.S. Congress approved legislation permitting TVA to refinance its Federal Financing Bank (FFB) debt. This debt had an average interest rate of 9.67 percent and an average remaining life of about 10 years at the end of fiscal year 1998.

The President signed the legislation on October 21, 1998, and within forty-eight hours, TVA repaid the U.S. Treasury in full. Funds to retire the FFB debt were borrowed short-term, with the intent to refinance the debt longer term.

In November 1998 TVA replaced \$2.0 billion of the former FFB debt with a 10-year global

benchmark issue bearing a coupon rate of 5.375 percent. Shortly afterwards, TVA issued 200 million of sterling-denominated bonds with a coupon rate of 5.35 percent to first-time TVA investors in England and Scotland. In December 1998, TVA issued an additional \$400 million in 5-year bonds with a coupon rate of 5.00 percent led by a syndicate of investment banking firms exclusively minority-owned or woman-owned, a syndicate "first" for any corporate borrower. To complete the FFB refinancing, in April 1999 TVA offered \$525 million of its second series of Putable Automatic Rate Reset Securities (PARRS) with an interest rate of 6.50. At the conclusion of the FFB debt refinancing, TVA had lowered the average interest rate by more than four hundred basis points to 5.5% on the total \$3.2 billion.

In addition to the FFB debt refinancing, in September 1999 TVA offered \$1 billion of 3-year global bonds to provide advanced funding for \$1 billion of 8.375 percent bonds that matured on October 1, 1999, saving TVA more than \$20 million in annual interest expense.

### A Variety of Debt Offerings in FY 1999

Date	Issue	Amount (Millions)	Coupon
10/98	2.25-year West Coast Targeted	\$ 250	5.000%
11/98	10-year Global Bond	2,000	5.375%
11/98	23-year Sterling Denominated*	331	5.755%
12/98	5-year Minority-Led	400	5.000%
4/99	30-year "PARRS" Retail Deal	525	6.500%
9/99	3-year Global Bond	<u>1,000</u>	6.000%
Total		<u>\$4,506</u>	5.619% Average

\*Converted to dollars.